

HVS Market Pulse: Arlington, Virginia

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The COVID-19 pandemic has had a severe impact on the Arlington, Virginia, and greater Washington, D.C. region's lodging markets. Although a substantial amount of leisure demand was present in 2021, Arlington's lodging market has remained depressed overall for nearly two years given the limited commercial, government, and group demand.



Demand was healthy in the years prior to the pandemic, with Arlington hotels registering occupancy levels in the mid-70s from 2016 through 2019. Largely generated by Arlington's proximity to Washington, D.C., occupied room nights represented a mix of leisure travelers visiting the monuments and museums, government and military groups related to the various federal agencies, and commercial travelers associated with the many financial services and technology firms located throughout Arlington and Northern Virginia.

In 2020, following stay-at-home orders and mask mandates by Governor Northam, occupancy dropped from the 2019 benchmark of nearly 75% to 29%, reflecting a 45-point decline. Occupancy reached its lowest level in April 2020 at the height of the pandemic. ADR decreased roughly 24% from 2019 levels, declining from \$170 to \$129. The lowest monthly ADR throughout the pandemic was recorded in December 2020 when Arlington hotels lowered rates significantly to generate room nights during a seasonally low period of demand.

Arlington's Recent Historical Trend & Forecast

	Historical			Forecast			
	2019	2020	2021*	2022	2023	2024	2025
Occupancy	74%	29%	42%	58%	65%	71%	72%
Percent Change	—	-60%	41%	40%	12%	9%	2%
Average Rate	\$170	\$129	\$124	\$148	\$159	\$165	\$170
Percent Change	—	-24%	-4%	19%	8%	4%	3%
RevPAR	\$127	\$38	\$52	\$86	\$103	\$117	\$123
Percent Change	—	-70%	35%	67%	21%	13%	5%

* 2021 forecast based on year-to-date 2021 data through November

Source: STR (Historical Years) and HVS (Forecast)

Summary

Arlington County hotels experienced unprecedented declines in demand during the COVID-19 pandemic, similar to most metropolitan areas in the United States. Considering the area's large number of demand generators, Arlington hotels are well positioned for a recovery, albeit a slow one. How far did the Arlington hotel market fall? What factors will shape this recovery?

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Major factors contributing to the market's performance during the pandemic and our forecast are summarized as

follows:

- Due to Arlington's proximity to Washington, D.C., the market's year-to-date November 2021 occupancy level greatly benefited from the January 2021 Presidential Inauguration, including the influx of National Guard and other military service members who remained in the area for a period following the insurrection. The remainder of 2021 experienced steady seasonal growth, with demand increasing in the summer months and peaking in October at 53%, largely due to pent-up demand from all segments.
- Commercial and group business have historically been the two strongest segments within the Arlington market given the number of industries and federal agencies in the area, as well as the presence of a major national airport in the county. However, with many companies and agencies continuing to allow their employees to telework, non-leisure demand has been much slower to rebound. The **American Hotel & Lodging Association (AHLA)** ranked the Washington, D.C. metropolitan area as the second-hardest hit region by lack of business travelers.^[1] AHLA predicts that business travel revenue will not return to pre-pandemic levels nationally until 2024.
- Arlington typically captures leisure demand related to those visiting the tourist attractions in Washington, D.C., including the monuments and **Smithsonian** museums, as well as those attending sporting events. Only a short drive or metro ride away, hotels in Arlington are a popular choice for leisure travelers who wish to spend time in Washington, D.C. while enjoying a more suburban and often discounted stay. Visitor numbers in 2019 peaked at 24.6 million people in Washington, D.C., while that number fell to about seven million in 2020. It is estimated that this number doubled in 2021, exemplifying the resiliency of the leisure segment.^[2] Arlington's hotels will continue to benefit from the recovery of tourism demand in Washington, D.C.
- **Ronald Reagan Washington National Airport (DCA)**, located along the Potomac River in Arlington, registered record-breaking passenger traffic numbers in 2019 before the significant decline in 2020. There has been substantial investment and construction activity at DCA in recent years, much of which continued during the pandemic, including road improvements, a new parking garage, a new concourse, and a new security screening area. The 2021 holiday season proved optimistic for the airport, with 212 daily flights, compared to 49 during the 2020 season.^[3] Furthermore, following the announcement on November 8, 2021, that travel restrictions had been lifted for fully vaccinated international visitors to the United States, aside from some exceptions, passenger levels are expected to increase considerably at the nearby **Dulles International Airport (IAD)**. Arlington will benefit from growing travel levels within the region.
- National Landing is a new community comprising Arlington County's **Crystal City**, parts of Arlington County's **Pentagon City** neighborhood, and Alexandria's Potomac Yard neighborhood. The area will be home to **Amazon's** second headquarters, HQ2, and **Virginia Tech's** satellite **Innovation Campus**. The HQ2 development will ultimately encompass 3.2 million square feet of office space and create 25,000 jobs over the next decade. Virginia Tech's Innovation Campus will be the university's new graduate campus for its computer science and computer engineering programs; the campus is planned for a 3.5-acre, mixed-use development in Potomac Yard and will open in 2024. The influx of activity from Amazon, Virginia Tech, and ancillary businesses that will accompany the two should generate significant levels of commercial demand once construction begins to wrap up in 2024.
- Prior to the onset of the pandemic, multiple hotel projects were slated for development in Arlington neighborhoods such as **Rosslyn**, **Ballston**, and Pentagon City. However, given the uncertainties associated with the effects of the pandemic on the lodging industry, these projects were put on hold or canceled. One project that has been recently announced to move forward is the **Bingham Center** by TCS Realty Associates and **Donohoe Development**. Located in the **Clarendon** neighborhood, the Bingham Center will be a mixed-use development that includes a 229-room, full-service hotel. The project is slated for completion in 2024.

Based on our market research, the long-term outlook for this market is optimistic, and we are confident that Arlington hotels will return to their pre-pandemic performance levels. The arrival of Amazon, construction of Virginia Tech's Innovation satellite campus, and other development projects occurring in Arlington should foster significant growth for the lodging market going forward.

For more information, contact **Caroline Dioso** or **Chelsey Leffet** with our **Washington, D.C.** team.

^[1] American Hotel & Lodging Association, "**67% of Business Travelers to Reduce Trips Amid Rising COVID-19 Cases.**" 8/31/2021. Retrieved 1/4/2022.

^[2] Jeff Clabaugh, *WTOP News*, "**DC tourists and conventions are returning, but international visitors are holding off.**" 6/21/2021. Retrieved 1/4/2022.

^[3] Hannah Denham, *Washington Business Journal*, "**Region's dominant airlines say they're ready for holiday season's busiest travel days.**" 12/22/2021.

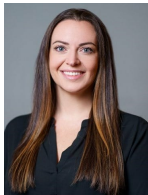
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About **Caroline Dioso**



Caroline Dioso is a consulting and valuation Senior Project Manager with the HVS Washington, D.C. office. She graduated from Cornell University in May 2021 with a Bachelor of Science in Hotel Administration and a minor in Real Estate. While studying at Cornell's Hotel School, she held leadership positions in her sorority, the Female Leadership in Hospitality Club, and a three-day student-run conference called Hotel Ezra Cornell. Prior to joining HVS in 2021, Caroline completed internships with Hilton, Kimpton Hotels & Restaurants, and Landis Technologies. Her prior hospitality experience includes luxury hotel operations and sales. Contact Caroline at (703) 627-0659 or [\[email protected\]](#).

About **Chelsey Leffet**



Chelsey Leffet is Managing Director and head of the Northeast region of the U.S. for the Consulting & Valuation division. Chelsey has consulted on hundreds of hotels throughout the Mid-Atlantic, including major Beltway markets. Prior to joining HVS, Chelsey worked in guest services, operations, and restaurant roles at ARAMARK Higher Education; Lighthouse Resort Services in Corolla, North Carolina; the Columbus Inn in Wilmington, Delaware; and the Bellmoor Inn and Spa in Rehoboth Beach, Delaware. Chelsey earned her BS in Hospitality Management and her MBA from East Carolina University. Chelsey resides in Washington, D.C and is a certified general appraiser. Contact Chelsey at (202) 434-8793, or [\[email protected\]](#).